

ADMINISTRATION AND FINANCE COMMITTEE

DATE: April 24, 2007

CALLED TO ORDER: 5:03 p.m.

ADJOURNED: 5:48 p.m.

ATTENDANCE

Attending Members

Joanne Sanders, Chair
Vernon Brown
Lance Langsford
Lynn McWhirter
Jackie Nytes

Absent Members

Paul Bateman
Lincoln Plowman

AGENDA

PROPOSAL NO. 183, 2007 - determines the need to lease approximately 70,000 square feet of space at 1200 South Madison Avenue for use by the Departments of Metropolitan Development and Public Works
"Do Pass" Vote 5-0

ADMINISTRATION AND FINANCE COMMITTEE

The Administration and Finance Committee of the City-County Council met on Tuesday, April 24, 2007. Chair Joanne Sanders called the meeting to order at 5:03 p.m. with the following members present: Vernon Brown, Lance Langsford, Lynn McWhirter, and Jackie Nytes. Absent were Paul Bateman and Lincoln Plowman.

PROPOSAL NO. 183, 2007 - determines the need to lease approximately 70,000 square feet of space at 1200 South Madison Avenue for use by the Departments of Metropolitan Development and Public Works

Suzannah Overholt, Indianapolis Works Transition Director, distributed a memo (attached as Exhibit A) outlining the purpose for Proposal No. 183, 2007. She said that in order for the City or the County to lease space, the Council needs to find that there is a necessity. Ms. Overholt said that the desired space will house the Compliance Division of the Department of Metropolitan Development (DMD) and the Engineering Division and associated groups of the Department of Public Works (DPW). She said that the departments currently lease approximately 29,000 square feet at 604 N. Sherman Drive. She said that the additional space is needed because of the growth of the Compliance Division and to bring other groups together with the Engineering Division. Ms. Overholt said that the property at 1200 S. Madison Avenue, which is close to downtown Indianapolis, is a former industrial-type building that is going to be rehabbed. She said that the move to this building will hopefully assist with other development in the area. Ms. Overholt said that the property is currently owned by Denny Properties, LLC, but it has been sold. Upon initiation of the lease, the property will be owned by 1200 S. Madison, LLC, of which Ersal Osdemir will be the managing partner and Randy Denny will be another partner. She said that the development group that is working on 1200 S. Madison, managed by Mr. Osdemir, has worked on other projects in the City, such as the Jillian space on Meridian Street and the Majestic building.

Chair Sanders asked if the rehab of the building is already figured into the rental price. Ms. Overholt said that the building is not currently set up for offices, and the City has an Executed Letter of Intent with the developer that states that the developers will build-out the space. The City will have an allowance of \$20 per square foot that is built into the rent. She said that the quoted rental price is \$11.50 per square foot with 2% annual increases and includes the build-out. Ms. Overholt said as part of the build-out, the developers have to meet certain parameters, such as putting in the required electrical system, sprinkler systems, and other standards to make the building functional before the City's allowance goes toward additional services.

Councillor Nytes asked what the status is of the current lease at the Sherman Drive location. Ms. Overholt said that the current lease expires July 31, 2007. Councillor Nytes asked if the new space will be ready to move into by July 31. Ms. Overholt answered in the negative and stated that the move-in date is anticipated to be November 1. She said that the current lease allows for a hold-over, and the Trustee of the Sherman Drive property has agreed to honor the hold-over. Councillor Nytes asked what time period the Letter of Intent specifies for the new lease. Ms. Overholt said that the lease will be for ten years.

Councillor Nytes said that Exhibit A states that the new address is in an area that is in need of economic development and she added that the current building is also in an area in need of economic development. She asked if the City is abandoning one desperate, struggling neighborhood for another. Ms. Overholt answered in the negative and stated that the City is reaching out to the neighborhood leaders and groups in the North Sherman area to identify a good reuse plan for the facility. She said that the City has outgrown the current space, though there is additional space in that facility. The departments have had issues with the space since the beginning of the lease. Ms. Overholt said that it is now a matter of

working out issues with the current space and entering an agreement for more than twice the current space with the uncertainty of who will own or manage the property. She said that though the City's departmental needs must be addressed, the neighborhood's needs will also continue to be a concern. Chair Sanders said that Kumar Menon, Director, DPW, left her a message today stating that some of the concerns with the Sherman Drive property consisted of a non-responsive landlord, which has resulted in the property being entered into receivership, and other issues that were not conducive to office space, including ventilation, leaking roof, and rodents.

Councillor Langsford asked if the rehab includes infrastructure work to the building. Ms. Overholt answered in the affirmative and stated that the developers are required to install elevators, install common restrooms, update the HVAC, put on a new roof, and make the building accessible to persons with disabilities by Americans with Disabilities Act (ADA) standards. She said that these types of renovations have to be done whether or not the City leases the property. The City will only be responsible for the specifics, such as the layout of offices and the décor of the leased space.

Councillor McWhirter asked if Mr. Osdemir and Mr. Denny are the only two partners in the development group. Ms. Overholt said that they are the only two that were identified to her, but she will inquire as to whether there are any other partners. Councillor McWhirter asked how the price that will be paid to the Madison Avenue facility is equivalent to what is paid to the Sherman Drive facility. Ms. Overholt said that the City will pay slightly more per square foot for the Madison Avenue facility than what is currently paid to the Sherman Drive facility. Councillor McWhirter asked if additional funds will need to be added to the budget for this move and if so, from where do the departments anticipate the funds will come. Ms. Overholt answered that the developers are allowing the City six months of free rent; therefore, there will not be an increase in the budget for the first six months. She said that DMD's rent is not paid out of the General Fund, but is paid out of fees collected. She said that the Controller has reviewed the new contract, and he has concluded that the price for the space is reasonably within the budget for the two departments.

Councillor Brown asked if the goal is to encourage new tenants for the Sherman Drive facility. Ms. Overholt answered in the affirmative and said that it is also a goal to help with the facility being purchased by new ownership. Councillor Brown asked how much the rental of the property is per year. Ms. Overholt answered that the average cost over the 10-year term of the lease is approximately \$900,000 per year. Councillor Brown asked how much it would cost to purchase the building. Ms. Overholt said that she is unsure, as a purchase of the building was not pursued. Councillor Brown said that he believes that if there is an opportunity for the City to make a permanent investment in the community and own property, that route should be taken. Councillor Brown asked how much the Sherman Drive facility is selling for. Ms. Overholt said that she is unsure. Councillor Brown asked if other space was considered. Ms. Overholt answered in the affirmative, but stated that initially the team was looking for 80,000 square feet, which was cut down to 70,000. She said that 400 free parking spaces immediately adjacent to the building were also in the initial plans, but that has also been cut down to 300. Ms. Overholt said that these departments are where contractors obtain building permits, attend bid meetings for City projects, and perform other business pertaining to building. She said that there was very limited space to meet the desired requirements that was also reasonably priced. Ms. Overholt said that a building was considered at 71st Street and I-465, which was concluded to be too far from downtown. She said that there were also facilities examined on Meridian Street, of which one was already involved in a sales contract, and the others were three different structures on opposite sides of the street, and it was determined that those buildings would not be an efficient use of resources. Ms. Overholt said that there were also two other buildings within a block of the City-County Building, but parking was an issue. She said that the issues came down to location, budget, availability, and parking.

Ms. Overholt said that the list was narrowed down to three, which included the Sherman Drive property, but the Madison Avenue property was selected as the best option for what was desired.

Chair Sanders asked if the process was entered into with the thought of renting or buying or simply renting. Carlton Ray, Deputy Director, DPW, answered that the primary focus was to lease. Ms. Overholt said that the question of buying was asked at some of the considered properties, but those particular properties were not for sale.

Chair Sanders asked if Mr. Osdemir and Mr. Denny have any relationship with the City. Ms. Overholt said that she can provide that information to the Committee, but she is not aware of any relationship.

Councillor Langsford asked if there is a cost related to breaking the lease or an option to buy the Madison Avenue facility in the future. Ms. Overholt answered that there is no option to buy, and the lease is written as a 10-year term with the option to renew six months prior to the end of the term. She said that there are various reasons that the lease can be terminated during the term of the lease, such as lack of funding and non-compliant maintenance of the facility. She said that the City has a vested interest in stability, as she understands that the departments are seeking a long-term engagement. Councillor Langsford asked why a close proximity to downtown is important. Rick Powers, Administrator, DMD Division of Compliance, said that they prefer the downtown or central county area in order to provide convenience to their customer base. He said that the DMD staff often has to refer the public to other divisions within DMD in the City-County Building, and there is a need to be in close proximity to the sister agencies. Mr. Ray said that there are a number of Engineers and Construction Managers in DPW that work on projects throughout the County; therefore, a central location is desired to minimize drive time and provide convenience for going out to various parts of the community. He said that DPW has many meetings with contractors, engineering firms, and constituents about projects, and it is convenient for everyone to assemble in a central area.

Councillor Brown asked for an explanation of the need for the additional space. Mr. Ray said that other groups are being brought into the building. He said that recently DPW signed a consent decree with US Environmental Protection Agency (EPA) and Indiana Department of Environmental Management (IDEM) for the long-term control plan for capital projects, which consists of a \$1.8 billion program over 20 years. He said that currently DPW's staff is not equipped to handle that size of a program. Mr. Ray said that DPW has hired the Clean Stream Team as their Program Manager, which consists of various Engineering consultants. The Clean Stream Team is currently located in the Gold Building, for which DPW is paying rental, but that group will be brought into the new facility to work more closely with DPW's Engineering group. He said that the service group that provides oversight of the United Contract and handles the Operation Maintenance contract of all of DPW's collection systems and treatment plants will also be brought into the new facility. The goal is to house all of these groups together, preferably on one floor, and to stay with the Division of Compliance, as the two groups work closely together. Mr. Powers said that the Division of Compliance will occupy the first floor of the Madison Avenue facility for customer convenience. They currently occupy approximately 26,000 square feet and will expand to approximately 35,000 square feet, due to the increase of staff by 18 full-time equivalents (FTEs) over the last three years, including next year. He said that they will also coordinate in the issuance of Certificates of Occupancy, which will result in more traffic, more plan examinations, library space, and incorporation of a Fire Plans Examination section. Terry "TJ" Burns, Chief Fire Plans Examiner, Indianapolis Fire Department, has moved in with the Division of Compliance and they will also occupy space at the new facility. Their growth is anticipated to include five staff persons to be housed with the Division of Compliance, which will result in approximately 120

to 130 persons. He said that the additional space will also depend on the type of activities and the need for a larger lobby, the library area, and drafting-type tables.

Councillor Nytes asked if costs can be charged back against the funds since some of the staffing is tied to capital project work dealing with the Combined Sewer Overflows (CSOs). Ms. Overholt said that this is being explored. Councillor Nytes asked if anyone will be pulled out of the City-County Building to be housed in the Madison Avenue facility. Mr. Ray answered in the negative.

Councillor McWhirter asked if there is an idea to purchase or build a facility at some point in the future to help offset moving costs and continually leasing space. Mr. Ray said that if there is an opportunity in the future, it will be explored. Maury Plambeck, Director, DMD, said that looking into purchasing or building space is probably a task of the Building Authority, because any space that is purchased will not be a decision of an individual department. Ms. Overholt said that in the agreement with the prospective developer, moving costs is one of the expenses that can be charged against as part of the build-out allowance.

Councillor Nytes commented that over the last twenty years, she remembers when Indianapolis went through a process of divesting itself of most of the buildings in which parts of Administration and several other agencies were housed. She said that at that time, the idea was that leasing was better because having the assets was not cost-effective because they could not be depreciated. She said that it will benefit the City to do some solid financial analysis about what the best approach is over time for taxpayer money. She said that the best time to do this analysis is before the deal is in the making.

Councillor Brown said that the City continues to lease space, but at some point the decision needs to be made to build a facility for City government to ensure that everyone has the space that is needed for the proper, continuous functioning of each agency.

Chair Sanders asked if Ms. Overholt stated that the City's 70,000 square feet will only occupy approximately half of the building. Ms. Overholt answered in the affirmative and stated the City agencies will be on the first and second floors. Chair Sanders asked if the type of businesses that will lease the remainder of the building is known. Ms. Overholt answered in the negative, as there are no other tenants at this point. Chair Sanders asked if it is known as to whether that space will be used for other business offices. Ms. Overholt answered in the affirmative. She said that the developers have committed that the remainder of the building will be business office space, and as a condition of the lease, it is stated that the other uses of the space cannot be inconsistent with the City.

Councillor Nytes moved, seconded by Councillor Langsford, to forward Proposal No. 183, 2007 to the full Council with a "Do Pass" recommendation. The motion carried by a vote of 5-0.

Other Business

Chair Sanders said that Catherine Parker, Grants Director, Office of Finance and Management, presented information on issues relating to federal audits within the Auditor's Office at a previous meeting. Ms. Parker said that she would provide information to the Committee regarding the total amount of federal money that the County receives. Chair Sanders said that unfortunately, because the auditing process is not up-to-date, the best data is from 2003, which concludes that the total federal expenditures were \$9.9 million dollars. Of that amount, subrecipients expended approximately \$1.6 million. Chair Sanders said that Ms. Parker's hope is that the 2004 audit will be complete and signed

off on within the next couple of weeks and she will be able to provide the necessary information, with the 2005 information being available following that.

Councillor Nytes asked if the amount that Ms. Parker provided applies only to the County because Community Development Block Grants (CDBG) total more than that amount. Chair Sanders answered that the provided amount does not include CDBG monies, as DMD operates and keeps records on those amounts. Councillor Nytes asked if a report can be made available at some point that specifies to taxpayers all of the federally funded programs that the City is doing. Chair Sanders said that some of the information was given previously, but Ms. Parker is currently working on identifying the non-compliant items within the federal audits. Once she is finished with that project, she can possibly come before the Committee to discuss that information.

With no further business pending, and upon motion duly made, the Administration and Finance Committee of the City-County Council was adjourned at 5:48 p.m.

Respectfully submitted,

Joanne Sanders, Chair
Administration and Finance Committee